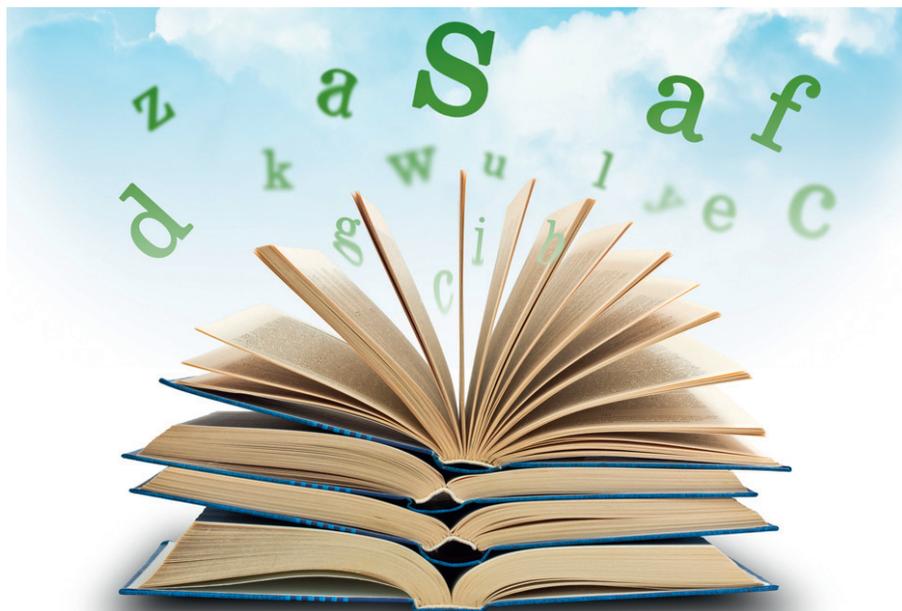## with Anna Bateson

Corporate governance principles

> ## The governance vocabulary includes many terms and definitions

Although something may seem obvious to an expert, it may need some explaining to the boards and directors required to deliver good governance. The assumption that the facts speak for themselves and that logic will prevail ignores the need to build understanding of how principles could and should be applied in specific contexts. It also fails to recognise individual and collective motivations of directors and the board, as well as the need to build engagement and consensus.

When talking to boards and individual directors, it becomes clear that they undertake a journey from an attitude of mind, which sees the principles as an onerous burden to be complied with, to a new mindset, which seeks to embed governance principles as 'the way we do business round here'.

Not everyone travels at the same pace and directors at the start of that journey point to the significant time investment required at the expense of running the business. They highlight the tensions of managing disparate stakeholder agendas while delivering short-term performance and building long-term

stability. The insatiable requests for more information and additional reporting are seen as burdens; the requirement to provide sufficient information to enable investors to make informed decisions is seen as onerous; and the focus on improving the quality and standard of reporting is seen as interference.

Experts appreciate that the recent regulatory changes to the Corporate Governance Code as well as to audit, narrative and remuneration reporting requirements are intended to inform and clarify, rather than confuse; it is also recognised that the purpose of providing these principles is to motivate 'good behaviour' in the leadership of listed entities. There is also an understanding that boards are expected to use judgement when applying the principles to their specific context – a common frustration seems to be that the boards they support do not share this understanding.

Translating the words
The governance vocabulary includes many terms and definitions: fair, balanced, understandable, relevant, concise, significant, forward-looking and aligned are just a few.

Creating a shared understanding of what the words mean in the context of an organisation takes time, effort and energy.

The words matter at all stages of board activity.

- Requests for the intelligence necessary to prepare members for board decisions must recognise corporate governance principles. For example, the requirement to create greater engagement with stakeholders may be partly met by collecting insights from a wider range of interested parties.

- Board papers can present implications and evidence alignments such as those between chosen strategies and the business model, which enables their implementation.

- Auditing your board agendas to identify the balance between operational and strategic items provides a healthcheck on the focus of attention and the degree to which the board is forward looking.

- Boards can invest in developing their capability to spot linkages and dependencies between the agenda items on which they make decisions, rather than seeing each discussion as discrete. For example, remuneration reporting requires evidence of the explicit links between strategy, key performance indicators and remuneration policy and practice.

- Committee structures and processes can promote transparency and consistency – audit reporting requirements explore the links between auditors and audit committees and promote the avoidance of jargon and the use of exception reporting.

It will take more than a mechanistic approach to build understanding, engagement and consensus. An initial focus on the tone and sense will provide a foundation for the development of a corporate governance mindset and precede the detailed discussion required to translate principles into context.

» **About the author**

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